

**Testimony Before the House Tax Policy Committee
On House Bill 4910
by the Michigan Railroads Association**

Thank you Mr. Chairman and members of the House Tax Policy Committee for this opportunity to speak to the issue of the proposed repeal of the Railroad Ad Valorem Property Tax Credit, House Bill 4910.

My name is Bob Chaprnka and I am president of the Michigan Railroads Association. The MRA represents 13 private sector railroads that account for approximately 95% of all rail freight moved in Michigan.

The railroad property tax credit was enacted in 1977. It allows railroad companies the opportunity to earn a credit against their property taxes on their railroad rights of way by virtue of their investment in their track structure such as rail, ties and ballast. These investments, analogous to public investment in highways, are fixed and accrue directly to the enhancement of Michigan's transportation network.

The credit was initially enacted as a matter of equity. Competitors of the railroads such as trucks, ships and barges and even the airlines do not pay a property tax. Equity dictates that railroads should be treated similarly. While railroads are not exempt, today they can earn a credit by virtue of their investments in their track structure.

Railroads are extremely capital intensive. They invest approximately \$100 million in their track structure annually. Eighteen percent of their annual revenue goes directly into their track and roadbed. The average manufacturer spends about 3.8% of their revenue on their infrastructure. So you can see that maintaining track to adequate safety standards set by the Federal Railroad Administration is a heavy financial burden on the railroads.

As we all know, Michigan is a peninsular state. It is extremely difficult to profitably railroad in Michigan. For the most part rail must either originate or terminate shipments in Michigan. This is not true in most states notably Ohio, Indiana and Illinois to our south. Those states contain transcontinental routes that have healthy traffic that can more easily sustain rail operations.

Northern Michigan and many of the rural areas of the state are served by short line railroads. These light density lines serve small business and farmers, as well as the agribusiness industry. They collect the annual harvest and hand it off to larger railroads that ship to ports for export or to such places as the south to supply the poultry industry. Many of these smaller railroad companies are marginal. Without the tax credit it would be difficult for many of them to stay in business. Over a relatively short period of time many would be predisposed to abandonment cutting off rail service to key areas of the state.

Railroads are also a key component to manufacturing in Michigan. Rail brings in raw materials and parts and ships out finished products. For example, 70 percent of finished automobiles and trucks make the bulk of their trip to auto showrooms by rail. Efforts are currently being made to help manufacturing in Michigan. Why do we want to hurt rail that is so crucial to the success of manufacturing in Michigan and would ultimately have a negative impact on our manufacturers?

The American Association of State Highway and Transportation Officials, commonly referred to as AASHTO, is an organization representing highway and transportation departments in all 50 states. In its Freight Rail Bottom Line Report, AASHTO recently concluded that federal and state government will have to invest heavily in rail infrastructure over the next 20 years to help alleviate projected freight congestion on our highways. The AASHTO report stated and I quote: "Realizing the public benefits of a strong freight-rail system will require a new partnership among the railroads, the states, and the federal government... Relatively small public investments in the nation's freight railroads can be leveraged into relatively large benefits for the nation's highway infrastructure, highway users and freight shippers." Repeal of the railroad tax credit goes in the opposite direction of AASHTO's recommendations.

Many states provide similar property tax treatment for their railroads as Michigan. The states of West Virginia and Ohio are currently considering proposals similar to the Michigan rail credit this legislative session.

The railroad tax credit has served Michigan well in encouraging private companies to spend private resources in this state to preserve its key rail infrastructure. The tax credit has provided Michigan businesses and citizens with safer, higher quality rail service, while allowing the railroads to contribute to the creation and retention of Michigan jobs. The railroad property tax credit is working well and should be retained.

Thank you.